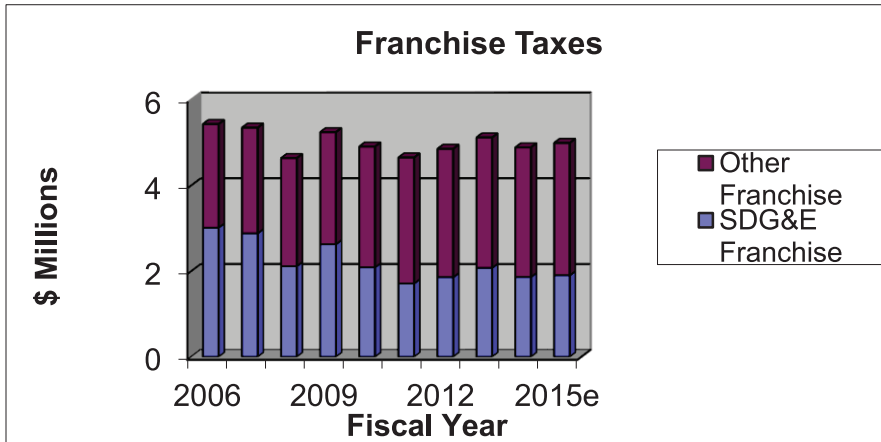


2014-15 OPERATING BUDGET OVERVIEW

3 percent in FY 2014-15, from approximately \$16 million to \$16.5 million. As seen in the accompanying graph, TOT has increased by over 40 percent since FY 2010-11, as new hotels, such as the LegoLand Hotel and the Hilton Oceanfront Resort & Spa have opened in the past years. Overall improvement in the national and state economies has also bolstered tourism in the region, and the San Diego Tourism Authority expects demand for hotel rooms to continue rebounding in 2014. Carlsbad currently has over 4,000 hotel rooms and over 1,000 vacation rentals, and continues to benefit from increasing daily room rates and improving occupancy rates.



One of the more volatile General Fund revenues is the **Franchise Tax**. Franchise taxes are paid by certain industries that use the city right-of-way to conduct their business. The city currently has franchise agreements for cable TV service, solid waste services, cell sites, fiber optic antenna systems and gas and electric services. The

cable and solid waste franchises have been growing along with the growth in population, changes in their rate structures, and the continued growth of the city's newest cable franchises, AT&T and Time Warner. Overall, franchise tax revenues are projected to increase by approximately 2 percent, with all segments sharing in the increase.

SDG&E pays franchise taxes for the use of the public land over which they transport gas and electricity. The city also receives an "in-lieu" franchise tax based on the value of gas and electricity transported on SDG&E lines, but purchased from another source. The "in-lieu" tax captures the franchise taxes on gas and electricity that is transported using public lands but which would not otherwise be included in the calculations for franchise taxes, due to deregulation of the power industry. The majority of the "in-lieu" taxes received is attributable to Cabrillo Power, the operator of the Encina power plant, and is based on the gas used in the generation of electricity. The continued reduction in operations at the Encina power plant is projected to negatively impact the "in-lieu" franchise tax paid by SDG&E, although revenues from this source are expected to increase slightly in FY 2014-15, after a decrease experienced in the current year (FY 2013-14).

Development-related revenues are derived from fees for planning, engineering and building permits, and fees paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections. These revenues are difficult to predict, as many of the planning and engineering activities occur months or years before any actual development.

During FY 2009-10, development-related revenues began to turn around from historic lows experienced in FY 2008-09. During FY 2010-11, this revenue source continued to strengthen, especially on the non-residential side, with the permitting of the new Isis Pharmaceuticals headquarters and the Hilton Beachfront Hotel. Development-related revenues have fluctuated in the past years in line with increases and decreases in residential, commercial and industrial development. In FY 2012-13, revenues rose from \$2.7 million to \$3 million, following a marked increase in commercial space permitted. This year, FY 2013-14, development-related revenues normalized to \$2.1 million, as trends returned to normal levels. In FY 2014-15, we expect a 20 percent increase in development related revenues, to approximately \$2.5 million.

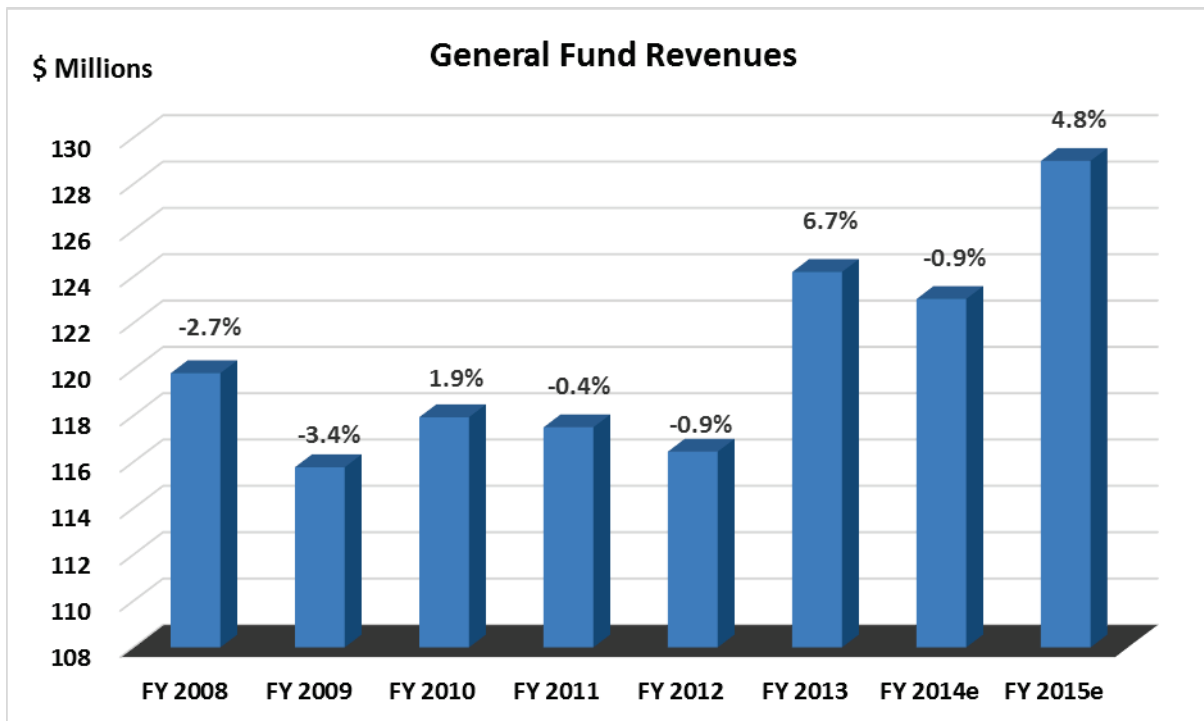
2014-15 OPERATING BUDGET OVERVIEW

Business license taxes are closely tied to the health of the local economy, and are projected to increase by 4 percent to an estimated \$3.8 million in FY 2014-15. There are currently about 9,332 licensed businesses in Carlsbad, with just over 2,468 of them home-based.

All other revenues include transfer taxes, interest earnings, ambulance fees, recreation fees, and other charges and fees. The estimate for Fiscal Year 2014-15 totals \$16.3 million, a \$906,000, or 5.9 percent, increase from the previous year.

Interdepartmental charges are generated through engineering services charged to capital projects, reimbursed work from other funds and miscellaneous interdepartmental expenses charged to funds outside the General Fund for services performed by departments within the General Fund.

Transfer taxes are those taxes paid to the county upon the transfer of interests in real estate. The tax is 55 cents per \$1,000 of property value, and is split equally between the county and the city. Carlsbad expects to receive approximately \$1.1 million in transfer taxes for FY 2014-15, which is essentially unchanged from FY 2013-14. Although housing prices have increased, very low inventories indicate a lack of sales activity. Sales activity is projected to remain relatively low, as Fed action and an improving overall economy put upward pressure on mortgage rates. Income from investments and property includes interest earnings, as well as rental income from city-owned land and facilities. The city is expected to earn about \$2.5 million in interest on its General Fund investments for Fiscal Year 2014-15, as the yield on the city's portfolio is expected to be approximately one percent and is not expected to substantially improve in the coming fiscal year.



Overall, as reflected in the bar chart, General Fund revenues are expected to be up 4.8 percent from FY 2013-14, as property tax, sales tax, and TOT continue to improve. Although the city experienced revenue growth between 9 and 17 percent in the late 1990's, it was not sustainable. Much of those increases were due to the opening of new hotels, restaurants, retail centers, and new home development. As new development slows, it will be increasingly more difficult to produce double-digit growth in revenues. An improving economy is certainly driving General Fund

2014-15 OPERATING BUDGET OVERVIEW

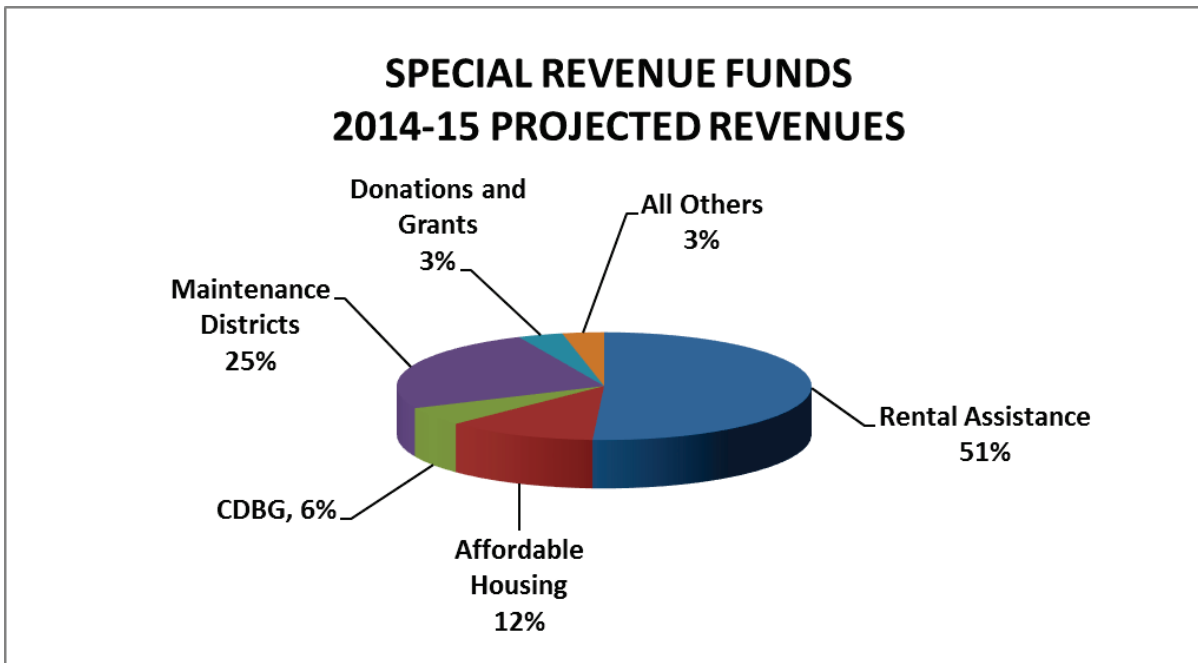
revenues higher, but revenue growth should remain in the 3 to 4 percent range in the coming years.

The City has a **General Fund reserve policy** that sets a minimum reserve of 30 percent of the General Fund Operating Expenditures. In addition, the policy sets a target reserve of 40 percent to 50 percent of General Fund Operating Expenditures. The minimum reserve would provide approximately three to four months of operating expenditures for unforeseen emergencies. At the end of FY 2012-13, the unassigned General Fund balance was approximately \$69.6 million. At the end of FY 2013-14, the reserve is projected to be approximately \$68.8 million, or 57 percent, of the FY 2013-14 Budget. The reserve amount is consistent with Council Policy 74: General Fund Reserve Guidelines.

Other Funds

Revenues from **Special Revenue** funds are expected to total \$11.6 million in FY 2014-15, a \$434,000, or 3.6 percent, decrease from FY 2013-14. The types of programs supported within Special Revenue funds are those funded by specific revenue streams such as:

- Grants (Rental Assistance-Section 8 and Community Development Block Grants)
- Special fees and assessments (Affordable Housing and Maintenance Assessment Districts)
- Donations (Library, Cultural Arts, Recreation and Senior Donations)



The most noteworthy changes in the Special Revenue funds occurred in the Affordable Housing Trust Fund, the Community Development Block Fund and the Rental Assistance Fund. Estimated revenues decreased \$562,000, increased \$420,000 and decreased \$250,000, respectively, from FY 2013-14. During FY 2013-14, the city received approximately \$1.6 million in one-time affordable housing credits. In order to meet the inclusionary housing obligations for certain areas of the city (e.g., the southeast and southwest quadrants), units related to developments were made available as affordable housing credits for housing developers to purchase. Due to the small size of certain projects and the difficulty in obtaining financing, some developers/applicants have opted to purchase affordable housing credits instead of constructing units.

2014-15 OPERATING BUDGET OVERVIEW

Enterprise fund revenues for FY 2014-15 are projected at \$71.8 million, an increase of \$2.6 million, or 3.8 percent, over current year projections. The increase in revenues is primarily due to the planned rate increases for Water and Wastewater funds, as well as revenue increases from the city's golf course operations. Enterprise funds are similar to a business, in that rates are charged to support the operations that supply the service. Carlsbad Enterprise funds include water and recycled water delivery, wastewater services, solid waste management, and operation of a golf course.

The Water Enterprise Fund revenue is estimated at \$48.5 million, an increase of \$2.4 million, or 5.2 percent over the current year estimate. These revenues reflect \$2.1 million in increased sales revenue due to a proposed rate increase of 5.0 percent effective January 1, 2015, to pay for the rising cost of potable water purchases. The proposed rate increases have been approved by the Board of Directors of the Carlsbad Municipal Water District. Anticipated increases paid to the San Diego County Water Authority include an estimated 3.6 percent increase to the wholesale purchase cost of water (from \$1,103 to \$1,143 per acre foot, effective January 1, 2015), and an estimated 5 percent increase in the fixed charges for water purchases (from \$5.8 million to \$6.1 million) for FY 2014-15. In addition to paying for the wholesale and fixed water costs, the FY 2014-15 Operating Budget includes funding for replacement of Carlsbad's water infrastructure, ongoing meter replacements, and building sufficient operating reserves.

Estimated revenues for Wastewater are \$12.1 million; no change from the current year estimate. The revenue reflects proposed rate increases to fund the ongoing cost of operations, maintenance, and funding for replacement of infrastructure, as well as providing a sufficient operating reserve. The proposed rate increase for January 1, 2015 is 2 percent and has been approved by the City Council. Although rates are increasing, revenues are projected to remain flat due to decreases in wastewater flows.

Estimated revenues for the Golf Course are \$7.6 million, up 3.9 percent or \$283,000 from the current year estimate.

Internal Service funds show estimated revenues of \$19.7 million for FY 2014-15, relatively flat in total, from FY 2013-14 projections. This number is somewhat misleading, however, because in FY 2013-14 there was a one-time transfer of \$2 million to the Self Insured Benefits Fund and a transfer to the Risk Management Fund of \$750,000. In FY 2014-15 there are notable increased revenues in the Worker's Compensation, Vehicle Maintenance and Replacement, and Information Technology funds. Worker's Compensation claims and recommended reserves have risen, as have Vehicle Maintenance and Replacement costs. The Information Technology department has seen increases in contractual services and has incurred additional costs for newly implemented technology projects.

Internal Service funds account for services provided within the City itself, from one department to another, on a cost reimbursement basis. These include programs such as the self-insurance funds for Workers' Compensation and General Liability (Risk Management), as well as Vehicle Maintenance and Replacement, and Information Technology. Departments pay for these services; therefore, the rates charged are based on the cost to provide the service. The goal of an Internal Service fund is to match budgeted expenses with charges to the departments.

The Redevelopment Obligation Retirement Fund (RORF) revenues are budgeted at \$2 million, or 22.4 percent over FY 2013-14. Although the Redevelopment has been dissolved, the California Department of Finance has approved the repayment of the approximately \$8.1 million (plus accrued interest) loaned to both former redevelopment areas by the General Fund. Loan payments of approximately \$1 million per year will be made to the city, and 20 percent of this repayment will be set aside for future affordable housing.

2014-15 OPERATING BUDGET OVERVIEW

EXPENDITURES



The city's Operating Budget for FY 2014-15 totals \$227.4 million, which represents an increase of about \$12.7 million, or 5.9 percent, as compared to the adopted FY 2013-14 Budget. The changes in each of the city's programs will be discussed below.

Budgetary Policies

The theme behind this year's budget development was for the city to continue to provide the very best services to the community while finding operating efficiencies and reducing costs wherever possible. The goal was to achieve a balanced budget for the coming fiscal year while still maintaining the city's long-term financial health and ensuring that future costs can be met without negatively impacting the services provided to the community. All known and ongoing operating expenses were incorporated in the FY 2014-15 Adopted Operating Budget, as well as in the long-term financial forecast.

Responsible management of the city's resources includes maintaining a focus on a sustainable future by ensuring the city remains in good financial health, as today's decisions will impact future spending levels. Although the city is entering the new fiscal year in a solid financial position, the city will pursue allocating resources in a manner that provides the best services for the people of Carlsbad. The following policies for FY 2014-15 were established in line with conservative estimates for future revenue growth:

- Continue to provide excellent services to our residents.
- Increase in the number of staff positions were allowed in instances where community priorities would be served.
- Modest growth (2 percent) was allowed for maintenance and operations in order to allow departments to meet escalating costs. Additional growth was allowed for utility costs (SDG&E and water consumption) where precipitous increases occurred over the past several years.
- Increases were considered for new initiatives where community priorities would be served.
- All departments exercised prudence in budgeting and considered cost containment measures and set discretionary budgets at minimum levels.

The city uses an "Expenditure Control Budget" (ECB) process in budgeting, where each department is given a block appropriation containing sufficient funds to provide the current level of services for the upcoming year. For FY 2014-15, departments were allowed a 2 percent increase, if needed, for their expenditures for Maintenance & Operations (M&O). As a result of the economic recession, block budgets were reduced in both FY 2008-09 and FY 2009-10 in order to align expenses with falling revenues. In order to gain further operating efficiencies, the city's organizational structure was realigned in FY 2010-11. Since the beginning of the recession, the city has eliminated 47 full-time equivalent (FTE) positions in order to contain costs. In the FY 2014-15 budget, there is a net increase of 2 full-time equivalent positions. No additional appropriations are expected during the fiscal year, except in the case of significant unanticipated events. As in past years, amounts that are unspent at the end of the fiscal year will be carried forward to the next year, or will increase the city's reserves. At the end of FY 2013-14, the amounts carried forward by each department will be capped at no more than 10 percent of the previous year's Adopted Budget. Departments are allowed to request additional carry forward amounts from remaining unspent funds, for items funded in FY 2013-14 which would be completed in FY 2014-15.

2014-15 OPERATING BUDGET OVERVIEW

Budgeted Expenditures

Through the application of these guidelines and policies, the FY 2014-15 Operating Budget of \$227.4 million was developed.

Position Changes

A net increase of 2 full-time positions is reflected in the FY 2014-15 Operating Budget, as compared to the FY 2013-14 Adopted Budget. These position additions resulted in an approximate citywide personnel increase of \$278,400 for the coming year.

The FY 2014-15 Operating Budget includes the elimination of the following 8 full-time positions:

- 1.0 Administrative Secretary
- 1.0 Engineering Technician
- 1.0 Office Specialist II
- 4.0 Parks Maintenance Worker II (mid-year)
- 1.0 Tree Trimmer Lead Worker (mid-year)

The FY 2014-15 Operating Budget includes the addition of the following 10 full-time positions:

- 2.0 Management Analyst
- 1.0 Code Compliance Specialist II
- 1.0 Fire Marshall
- 1.0 Housing Assistant
- 1.0 Office Specialist II
- 1.0 Secretary
- 1.0 Senior Applications Analyst (mid-year)
- 1.0 Training Coordinator
- 1.0 Traffic Systems Operator

The net increase in hourly staff totals 7.19 FTE. This increase is due to the following:

Additions:

- 5.58 Alga Norte Community Park
- 1.00 Building Internship Program
- 0.50 Community Outreach & Engagement
- 2.16 Property & Environmental Mgmt.

Eliminations:

- 1.75 Office Assistants
- 0.30 Technical Assistant

These changes result in a city workforce of 669.75 full and three-quarter time employees, and 157.77 hourly, full-time equivalent positions.

New Facilities

The city has a number of major capital projects scheduled to be built over the next five years. As the city completes these projects, the costs of maintaining and operating the facilities, including additional personnel if necessary, are added to departmental operating budgets. There are no new facilities expected to open in FY 2014-15.

2014-15 OPERATING BUDGET OVERVIEW

Budget by Fund Type

The table below shows the changes in the Adopted Operating Budget for FY 2014-15, as compared to the Adopted Budget for FY 2013-14.

BUDGET EXPENDITURE SUMMARY BY FUND TYPE (In Millions)				
FUND	BUDGET 2013-14	BUDGET 2014-15	\$ CHANGE	% CHANGE
GENERAL FUND	\$ 119.7	\$ 124.6	\$ 5.0	4.1%
SPECIAL REVENUE	10.6	10.6	-	-0.2%
ENTERPRISE	65.9	68.9	3.0	4.6%
INTERNAL SERVICE	17.2	21.9	4.7	27.1%
REDEV. OBLIG. RETIREMENT	1.3	1.3	-	1.9%
TOTAL	\$ 214.7	\$ 227.4	\$ 12.6	5.9%

The General Fund contains most of the discretionary revenues that support basic core city services. However, this should not diminish the importance of the other operating funds, as they also contribute to the array of services available within Carlsbad. The remainder of this section will provide more information about the budgeted expenditures by fund and program.

GENERAL FUND SUMMARY BY EXPENDITURE TYPE (In Millions)				
	BUDGET 2013-14	BUDGET 2014-15	\$ CHANGE	% CHANGE
PERSONNEL	\$ 74.3	\$ 78.3	\$ 4.0	5.4%
MAINTENANCE & OPERATIONS	31.6	36.1	4.5	14.2%
CAPITAL OUTLAY	-	0.1	0.1	0.0%
TRANSFERS	13.8	10.1	(3.7)	-26.6%
TOTAL	\$ 119.7	\$ 124.6	\$ 4.9	4.1%

General Fund

The total Operating Budget for the General Fund for FY 2014-15 is \$124.6 million, which is 4.1 percent greater than the previous year's Adopted Budget of \$119.7 million. The total increase is attributable to a \$4 million, or 5.4 percent increase in Personnel, a \$4.5 million or 14.2 percent increase in Maintenance & Operations costs, and a \$3.7 million, or 26.6 percent, overall decrease in transfers out of the General Fund to other city funds, as can be seen in the table above. These changes are discussed in more detail below.

Personnel costs make up approximately 62.8 percent of the General Fund budget so any changes in these costs can have a significant effect on the total budget. The total personnel budget for FY 2014-15 is \$78.3 million, which is \$4 million, or 5.4 percent more than the previous year's total personnel budget of \$74.3 million.

2014-15 OPERATING BUDGET OVERVIEW

GENERAL FUND PERSONNEL COSTS (In Millions)				
	BUDGET 2013-14	BUDGET 2014-15	\$ CHANGE	% CHANGE
SALARIES	\$ 52.0	\$ 54.5	\$ 2.5	4.8%
RETIREMENT	13.0	14.3	1.3	9.8%
HEALTH INSURANCE	6.8	6.8	-	0.1%
WORKERS COMP	1.4	1.5	0.1	10.0%
OTHER PERSONNEL	1.1	1.2	0.1	8.6%
TOTAL	\$ 74.3	\$ 78.3	\$ 4.0	5.4%

The table above shows the breakdown of personnel costs for the General Fund. Salaries include full and part-time staff costs and are expected to increase in FY 2014-15 by \$2.5 million, or 4.8 percent. The increase is mainly due to previously negotiated wage increases scheduled to occur in FY 2014-15, as well as the net addition of 2 full-time staff and 7.19 part-time staff; the part-time staff are primarily for Alga Norte Community Park operations. Alga Norte Community Park opened to the public earlier this year, and the FY 2013-14 operating budget only included partial funding and staffing for operations and maintenance of the park.

Retirement rates, as projected by CalPERS, will increase in FY 2014-15 by about 1 percent of payroll for General and Management employees, representing a 4.4 percent increase, and by about 1.4 percent of salary for Safety employees, representing a 4.2 percent increase. These rate increases for the city will result in an increase of approximately \$1.3 million for the General Fund in FY 2014-15. Larger increases, approved by CalPERS, will go into effect in FY 2015-16.

Health insurance rates are remained relatively flat, and Worker's Compensation expense is projected to increase slightly. Miscellaneous other personnel costs, such as bi-lingual pay, are also projected to increase slightly for FY 2014-15.

Departments with part-time hourly employees were also given a 3.1 percent, or a \$140,000 increase, based on an external salary budget survey.

Maintenance & Operations costs (or M&O) represent about 29 percent of the total General Fund budget, and include the budgets for all program expenses other than personnel, capital outlay and transfers. Overall, total M&O costs are projected at \$36.1 million, an increase of about \$4.5 million, or 14.2 percent, for FY 2014-15 as compared to FY 2013-14. Maintenance & Operations costs are discussed more fully by program later in the report.

In addition to the 2 percent M&O increase authorized for FY 2014-15, budgets for utility costs were adjusted to keep up with the rising costs seen in the past few years, and anticipated in FY 2014-15. The FY 2014-15 includes additional funding of \$656,000 for these increases.

Capital Outlay includes budgeted equipment purchases over \$1,000. Capital outlay purchases of \$131,000 are budgeted in the General Fund for FY 2014-15.

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Transfers are amounts anticipated to be transferred from the General Fund to another city fund. The transfers included in this year's proposed budget are to the following funds:

- \$8,302,000 million to the Infrastructure Replacement Fund for major maintenance and replacement of city infrastructure. This represents 6.5 percent of the General Fund Revenues, the same as the percentage transfer for FY 2013-14.
- \$251,962 to the Storm Water Program for reimbursement for the General Fund portion of Storm Water expenses.
- \$539,000 to the Median Maintenance and Street Tree Maintenance Special Revenue Funds to cover cash shortfalls, as annual assessments collected from property owners do not cover annual operating expenditures.
- \$1,031,240 to the city's municipal golf course for debt service.

Advances are amounts anticipated to be transferred from the General Fund to another city funds and are expected to be repaid to the General Fund in future years. No General Fund advances are included in this year's Operating Budget.

Another way of looking at the General Fund budget is by program. The chart below compares the total FY 2014-15 Budget to the amounts adopted in the previous year. A brief description of each department and its services and a summary of significant department budget changes in the FY 2014-15 Operating Budget, are noted below the chart.

GENERAL FUND EXPENDITURES BY DEPARTMENT (In Millions)				
DEPARTMENT	BUDGET 2013-14	BUDGET 2014-15	\$ CHANGE	% CHANGE
POLICY & LEADERSHIP GROUP	\$ 4.0	\$ 5.6	\$ 1.6	39.4%
COMMUNITY & ECONOMIC DEV	6.8	8.2	1.3	19.3%
FINANCE	3.6	3.7	0.2	4.4%
FIRE	17.8	18.9	1.2	6.5%
HOUSING & NEIGHBORHOOD SRVCS	0.6	0.7	0.1	20.5%
HUMAN RESOURCES	2.4	2.9	0.5	19.9%
LIBRARY & CULTURAL ARTS	10.4	11.2	0.8	8.0%
PARKS AND RECREATION	13.2	14.8	1.6	12.3%
POLICE	28.7	29.1	0.3	1.2%
PROPERTY & ENVIRONMENTAL MGT	5.6	6.1	0.5	9.6%
RECORDS MANAGERMENTS	0.8	0.3	(0.5)	-62.3%
STORM DRAIN ENGINEERING	0.3	0.3	-	-0.3%
TRANSPORTATION	8.7	9.3	0.6	6.7%
NON-DEPARTMENTAL	16.7	13.5	(3.3)	-19.5%
TOTAL	\$ 119.7	\$ 124.6	\$ 5.0	4.1%

- The **Policy & Leadership Group** consists of all elected officials, the City Manager's Office, the City Attorney's Office, Community Outreach and Engagement, and Records Management functions. The \$1.6 million, or 39.4 percent increase for FY 2014-15 is

2014-15 OPERATING BUDGET OVERVIEW

due to the following: \$247,000 was transferred from Parks & Recreation and Library and Cultural Arts to the Community Outreach and Engagement budget in order to consolidate the work program in one area; personnel and operating expenses were transferred to the City Clerk's budget from the Records Management budget (\$450,000), and the City Manager budget reflects approximately \$300,000 in increased personnel costs as well as an increase for one-time professional services related to the Higher Education Council Priority Project.

- The **Community and Economic Development Department** includes economic development, planning, development services, building inspection, and land use engineering. The increase of about \$1.3 million, or 19.3 percent, is mainly due to the addition of one-time as well as on-going funding to implement programs such as the North County Brand, Digital Records Management, and a Building Inspector Intern Program. In addition, the budget for development plan check services increased \$530,000; these expenditures are offset by charges for services.
- The **Housing and Neighborhood Services** budget has remained relatively flat from the prior fiscal year.
- The **Finance Department** provides the services of accounting, financial reporting, capital and operating budgeting, payroll, billing and collections, citywide mail processing, purchasing and receiving, fiscal oversight, and long-term financial planning for the city. The increase of about \$156,000, or 4.4 percent, is mainly due to increases in internal services and personnel costs associated with negotiated wages and benefits.
- The **Carlsbad Fire Department** provides emergency operations, emergency preparedness, and fire prevention services to safeguard lives, property and the environment in the City of Carlsbad. The FY 2014-15 Operating Budget reflects a 6.5 percent, or \$1,200,000 increase. In addition to negotiated salary and benefits and internal service charge increases, funding is included for 1 full-time Fire Marshall position, the purchase of three cardiac monitors, and to pay for rising contractual payments for outside services.
- The **Human Resources Department** supports the city with staffing and recruitment, employee development, performance management, and compensation and labor relations services. The increase of \$477,000, or 19.9 percent, is primarily due to increased contract services for recruitment, and a net 1.25 full-time position increase for a Management Analyst and a Training Coordinator position.
- The **Library and Cultural Arts Department** provides staffing and a wide variety of programming for two library branches, a library learning center, and a cultural arts office. The department's budget is projected to increase by \$834,000, or 8 percent, from FY 2013-14 to FY 2014-15. Increased funding includes \$35,000 for a Public Arts Master Plan and a \$25,000 increase to the Community Arts Grants program. Remaining increases are for internal services, personnel costs and utility costs.
- The **Parks & Recreation Department** plans, staffs and maintains the city's parks and recreational facilities, provides an assortment of recreational programs for all ages, maintains landscaping at facilities throughout the city, and manages the city's open space areas. Alga Norte Community Park opened earlier this year, and FY 2014-15 includes funding for operations and

